

INVESTMENT ADVISER

CAPITAL GROWTH MANAGEMENT
LIMITED PARTNERSHIP
Boston, Massachusetts 02110

TRANSFER AND DIVIDEND PAYING AGENT AND CUSTODIAN OF ASSETS

STATE STREET BANK AND TRUST COMPANY
Boston, Massachusetts 02111

SHAREHOLDER SERVICING AGENT FOR STATE STREET BANK AND TRUST COMPANY

BOSTON FINANCIAL DATA SERVICES, INC.
P.O. Box 8511
Boston, Massachusetts 02266-8511

TELEPHONE NUMBERS

For information about:

- Account Procedures and Status
- Redemptions
- Exchanges
Call 800-343-5678
- New Account Procedures
- Prospectuses
- Performance
- Proxy Voting Policies and Voting Records
- Complete Schedule of Portfolio Holdings
for the 1st & 3rd Quarters (as filed on Form N-Q)
Call 800-345-4048

MAILING ADDRESS

CGM Shareholder Services
c/o Boston Financial Data Services
P.O. Box 8511
Boston, MA 02266-8511

WEBSITE

<http://www.cgmfunds.com>

CGM Focus Fund

12th Annual Report
December 31, 2008

A No-Load Fund

This report has been prepared for the shareholders of the Fund and is not authorized for distribution to current or prospective investors in the Fund unless it is accompanied or preceded by a prospectus.

FFAR 08

Printed in U.S.A.



Investment Adviser

Capital Growth Management
Limited Partnership

To Our Shareholders:

CGM Focus Fund decreased –37.4% during the fourth quarter of 2008 compared to the unmanaged Standard and Poor's 500 Index which fell –21.9% over the same period. For the year just ended, CGM Focus Fund returned –48.2% and the S&P 500 Index, –37.0%.

The Year in Review and Economic Outlook

In December, the National Bureau of Economic Research announced the U.S. economy had, in fact, entered a recession twelve months earlier in December of 2007. To anyone in the homebuilding, banking, retail or investment banking businesses, this came as no surprise...

In the first quarter of 2008, Bear Stearns became the first victim of what was to become a rapidly unfolding financial meltdown. J.P. Morgan purchased the venerable investment house for a mere \$10 per share and the government absorbed some \$29 billion of its mortgage backed securities. Although the Federal Reserve Board had locked its sights on the housing market as early as August of 2007 when it began reducing the Federal Discount rate, in early 2008 the government ratcheted up its efforts to counter plummeting home prices and slowing consumer sales by proposing a \$150 billion stimulus program which was disbursed in May, June and July. By mid-year, the economy's prognosis was improving as promising trends in trade, agriculture, energy and commodities combined with fairly aggressive monetary policy and fiscal incentives pointed to recovery. But, in a case of too much of a good thing, the price of crude oil then skyrocketed to \$147 per barrel, up from \$70 one year earlier. Still, it looked as though the government stimulus package was helping consumers absorb the resulting \$4.00 per gallon cost of gasoline and though the Fed continued to mention inflation as an ongoing risk, the unemployment rate remained a relatively low 5.5% in June. July's durable goods orders were up 1.3% and the Consumer Confidence Index which had taken a hit the month before rebounded to 56.9 in August from 51.9 in July. September, however, was an altogether different story.

On September 7, the federal government seized Freddie Mac and Fannie Mae, the primary buyers of mortgages in the U.S. On September 10, Lehman Brothers announced a \$3.9 billion loss for the previous quarter. One week later, the government agreed to loan American International Group \$85 billion (later increased to \$150 billion) claiming AIG was "too big to fail." Lehman was left to fend for itself and unable to find a

buyer, fell victim to the crisis. Other financial institutions sought assistance and the few remaining large independent brokerage firms either merged with commercial banks or registered as bank holding companies. Grudgingly, Congress approved the Troubled Asset Relief Program (TARP) to the tune of \$700 billion dollars, the first \$350 billion of which largely went to shore up balance sheets throughout the banking system. In early November, General Motors announced sales figures for October were a full 45% lower than those of October 2007. GM principally blamed frozen credit markets and its CEO along with the head of the UAW and leaders of the other two major U.S. automobile firms took their case to Congress pleading for billions of dollars in government loans. Congress excoriated the CEOs for arriving from Detroit on separate private jets and seemed more interested in executive compensation than in company overhead and labor costs versus the competition. As the high drama was unfolding in Washington, the S&P 500 declined to 752.44 on November 20, 2008, down 52% from its all-time high reached a little more than a year earlier in October 2007. The auto executives were sent home empty-handed and told to return (via other transport) with detailed plans for survival in a new, leaner environment. Two weeks later, Detroit's CEOs made the return trip to the Capitol with plans in hand, but to no avail: Congress did not approve their loans. Then, on December 19, the White House intervened and allocated \$17 billion in TARP funds to Chrysler and General Motors in an effort to avert their bankruptcy. As a condition of the loans, the companies must demonstrate financial viability by March 31, 2009. Widespread doubt that loans to the auto companies will do anything more than just kick the problem further down the road along with other factors weighed heavily on the Consumer Confidence Index pushing it to 38 in December, the lowest point in its 41-year history (and down from 90 just one year ago).

The year 2008 will figure prominently in economic history books as a year of dramatic easing of monetary policy, starting with a Federal Funds rate of 4.25% on January 1 (down from 5.25% in August 2007) to a low of 0% announced on December 16, 2008 (described as a range of 0% to .25% given the difficulty of managing a zero cost of money). Announcement of the latest cut promptly sank the 10-year government bond to 2.12%, its lowest yield since 1951. Add to the Fed's efforts the recent plunge in the price of oil to \$40 per barrel which translates into gasoline at less than \$2.00 per gallon

CGM FOCUS FUND

and money should make its way back into the consumer's pocket.

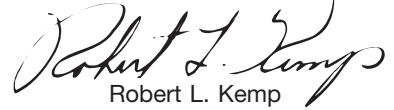
For nearly sixteen months, the Fed, the Treasury Department and Congress have done yeoman's duty in an effort to restore confidence, increase liquidity in the financial system and rejuvenate the economy. We believe we are headed in the right direction though it will take some time — possibly the better part of 2009 or longer — to squeeze remaining toxic debt out of the system.

Portfolio Strategy

CGM Focus Fund entered 2008 with substantial positions in energy, metals and agricultural stocks with a more modest investment in Russian and Latin American companies. We believed these securities would benefit from continued growth in developing economies despite the emerging slowdown in the U.S. and Europe. The stocks performed well through June 30.

The developing economies slowed in the summer of 2008 and joined more developed countries as the decline accelerated in the fall of the year. We sold most of our commodity-related stocks in the third quarter, but experienced major losses before positions were eliminated or reduced. Proceeds from the sales were reinvested in financial stocks and less economically sensitive companies, but the escalating financial crisis took its toll on these issues during the fall causing large losses in a number of our financial holdings. The Fund experienced its most significant losses during 2008 in energy, emerging market securities and Ford Motor Company though several financial companies also had substantial declines. The only meaningful gain was realized from the short sale of Washington Mutual.

At the end of the year, CGM Focus Fund held significant long positions in the insurance, drug and metals and mining industries. The Fund's three largest long holdings were Abbott Laboratories, MetLife, Inc. and Wal-Mart Stores, Inc.

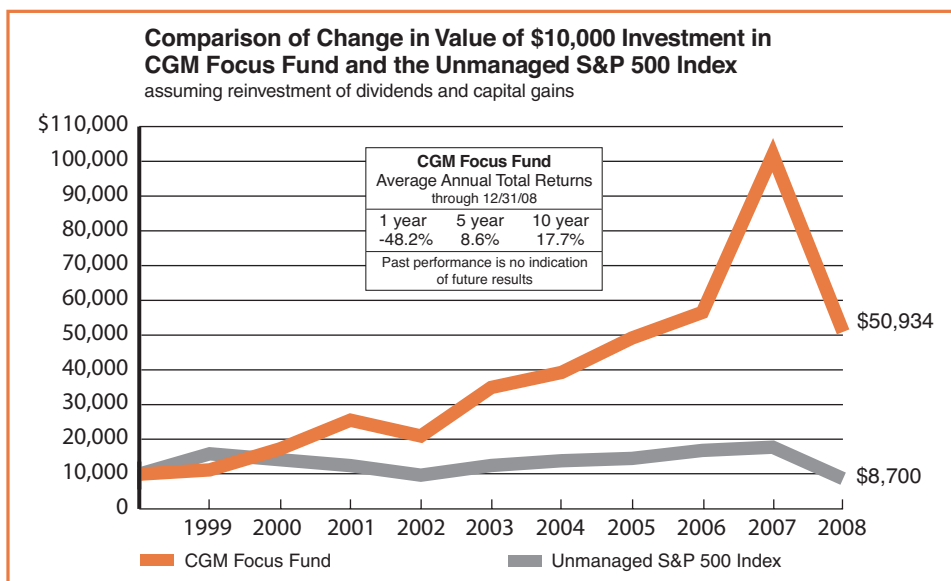


Robert L. Kemp
President



G. Kenneth Heebner
Portfolio Manager

January 2, 2009



CGM FOCUS FUND Portfolio Manager

G. Kenneth Heebner has managed CGM Focus Fund since its inception on September 3, 1997. In 1990, Mr. Heebner founded Capital Growth Management Limited Partnership with Robert L. Kemp. Prior to establishing the new company, Mr. Heebner managed mutual funds at Loomis, Sayles and Company. In addition to CGM Focus Fund, he currently manages CGM Mutual Fund and CGM Realty Fund.

See the Schedule of Investments on pages 4 and 5 for the percentage of net assets of the Fund invested in particular industries as of December 31, 2008.

INVESTMENT PERFORMANCE

(unaudited)

Cumulative Total Return for Periods Ended
December 31, 2008

	CGM Focus Fund
10 Years	+408.8%
5 Years	+ 50.8
1 Year	- 48.2
3 Months	- 37.4

The performance data contained in the report represent past performance, which is no guarantee of future results. The graph and table above do not reflect the deduction of taxes a shareholder would pay on Fund distributions or the redemption of Fund shares and assume the reinvestment of all Fund distributions. The investment return and the principal value of an investment in the Fund will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.

The adviser limited the Fund's total operating expenses to 1.20% of its average net assets exclusive of any dividend expense incurred on short sales through December 31, 2001. Otherwise, the Fund's cumulative total return and average annual total return for the ten year period would have been lower.

CGM FOCUS FUND

INVESTMENTS as of December 31, 2008

COMMON STOCKS — 99.0% OF TOTAL NET ASSETS

	Shares	Value(a)
Auto and Related — 3.4%		
Ford Motor Company (b)	61,764,000	\$ 141,439,560
Banks – Money Center — 4.5%		
Banco Bradesco S.A. ADR (c)	6,000,000	59,220,000
Banco Itaú Holding Financeira S.A. ADR (c)	11,000,000	127,600,000
		<u>186,820,000</u>
Biotechnology — 7.4%		
Celgene Corporation (b)	1,900,000	105,032,000
Gilead Sciences, Inc. (b)	4,000,000	204,560,000
		<u>309,592,000</u>
Business Services — 4.9%		
Research In Motion Limited (b)	5,000,000	202,900,000
Drugs — 10.1%		
Abbott Laboratories	7,900,000	421,623,000
Education — 5.9%		
Apollo Group, Inc. (b)	3,200,000	245,184,000
Hospital Supply — 5.6%		
Baxter International Inc.	4,400,000	235,796,000
Hotels and Restaurants — 5.6%		
McDonald's Corporation	3,783,500	235,295,865
Insurance — 28.2%		
Aflac Incorporated	5,200,000	238,368,000
MetLife, Inc.	11,000,000	383,460,000
Prudential Financial, Inc.	10,359,000	313,463,340
The Hartford Financial Services Group, Inc.	15,000,000	246,300,000
		<u>1,181,591,340</u>
Insurance Brokers — 2.2%		
Aon Corporation	2,010,000	91,816,800
Metals and Mining — 9.8%		
Barrick Gold Corporation	5,750,000	211,427,500
Newmont Mining Corporation	4,850,000	197,395,000
		<u>408,822,500</u>
Miscellaneous — 3.0%		
Berkshire Hathaway Inc. — Class A (b)	1,300	125,580,000
Retail — 8.4%		
Wal-Mart Stores, Inc.	6,250,000	350,375,000
TOTAL COMMON STOCKS (Identified cost \$4,408,557,566)		<u>4,136,836,065</u>

See accompanying notes to financial statements.

CGM FOCUS FUND

SHORT-TERM INVESTMENT — 0.2% OF TOTAL NET ASSETS

	Face Amount	Value(a)
American Express Credit Corporation, 0.01%, 01/02/09 (Cost \$7,795,000)	\$7,795,000	\$ 7,795,000
TOTAL INVESTMENTS — 99.2% (Identified cost \$4,416,352,566)		4,144,631,065
Cash and receivables		208,026,674
Liabilities		(173,758,364)
TOTAL NET ASSETS — 100.0%		<u>\$4,178,899,375</u>

- (a) See notes 1A and 6.
- (b) Non-income producing security.
- (c) An American Depositary Receipt (ADR) is a certificate issued by a U.S. bank representing the right to receive securities of the foreign issuer described. The values of ADRs are significantly influenced by trading on exchanges not located in the United States or Canada.

CGM FOCUS FUND

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2008

Assets

Investments at value (Identified cost — \$4,416,352,566)	\$4,144,631,065	
Cash	2,662	
Receivable for:		
Securities sold	\$183,420,563	
Shares of the Fund sold	8,157,722	
Dividends and interest	16,445,727	208,024,012
Total assets		<u>4,352,657,739</u>

Liabilities

Payable for:		
Securities purchased ..	148,766,025	
Shares of the Fund redeemed	11,424,880	
Distributions declared	7,599,624	
Tax withholding liability	2,042,401	169,832,930
Accrued expenses:		
Management fees	3,284,344	
Trustees' fees	48,319	
Accounting, administration and compliance expenses	58,284	
Transfer agent fees	250,865	
Other expenses	283,622	3,925,434
Total liabilities		<u>173,758,364</u>

Net Assets

	<u>\$4,178,899,375</u>
--	------------------------

Net Assets consist of:	
Capital paid-in	\$7,304,026,117
Accumulated net realized losses on investments	(2,853,405,241)
Net unrealized depreciation on investments	(271,721,501)

Net Assets

	<u>\$4,178,899,375</u>
--	------------------------

Shares of beneficial interest outstanding, no par value	155,027,684
Net asset value per share*	<u>\$26.96</u>

*Shares of the Fund are sold and redeemed at net asset value (\$4,178,899,375 ÷ 155,027,684).

STATEMENT OF OPERATIONS

Year Ended December 31, 2008

Investment Income

Income:	
Dividends (net of withholding tax of \$4,949,228)	\$ 110,736,700
Interest on restricted cash	7,621,002
Interest	2,069,216
	<u>120,426,918</u>

Expenses:

Management fees	61,082,103
Trustees' fees	171,461
Accounting, administration and compliance expenses	651,031
Custodian fees and expenses	754,708
Transfer agent fees	1,531,277
Audit and tax services	41,150
Legal	188,691
Printing	257,470
Registration fees	323,212
Line of credit commitment fee	41,464
Dividends on short sales	5,969,500
Interest expense on short sales	19,901,420
Miscellaneous expenses	10,018
	<u>90,923,505</u>
Net investment income	<u>29,503,413</u>

Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Transactions

Net realized gains (losses) on investments and foreign currency transactions:	
Long transactions	(3,889,772,547)
Short transactions	1,090,092,047
Net unrealized depreciation on investments:	
Long transactions	(1,525,654,671)
Short transactions	(238,524,105)
Net realized and unrealized losses on investments and foreign currency transactions	<u>(4,563,859,276)</u>

**Change in Net Assets from
Operations**

	<u>\$ (4,534,355,863)</u>
--	---------------------------

See accompanying notes to financial statements.

CGM FOCUS FUND

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2008	2007
From Operations		
Net investment income	\$ 29,503,413	\$ 4,578,837
Net realized gains (losses) on investments and foreign currency transactions . .	(2,799,680,500)	861,947,842
Net unrealized appreciation (depreciation)	(1,764,178,776)	1,197,002,190
Change in net assets from operations	<u>(4,534,355,863)</u>	<u>2,063,528,869</u>
From Distributions to Shareholders		
Net investment income	(33,932,273)	(4,608,973)
Net short-term realized capital gains on investments	—	(727,774,379)
Net long-term realized capital gains on investments	—	(150,234,755)
	<u>(33,932,273)</u>	<u>(882,618,107)</u>
From Capital Share Transactions		
Proceeds from sale of shares	5,691,991,908	2,144,201,168
Net asset value of shares issued in connection with the acquisition of assets from CGM Capital Development Fund (Note 7)	531,703,625	—
Net asset value of shares issued in connection with reinvestment of:		
Dividends from net investment income	25,544,420	3,733,219
Distributions from net short-term realized capital gains on investments	—	610,369,415
Distributions from net long-term realized capital gains on investments	—	126,003,069
	<u>6,249,239,953</u>	<u>2,884,306,871</u>
Cost of shares redeemed	<u>(3,038,166,008)</u>	<u>(801,142,829)</u>
Change in net assets derived from capital share transactions	<u>3,211,073,945</u>	<u>2,083,164,042</u>
Total change in net assets	<u>(1,357,214,191)</u>	<u>3,264,074,804</u>
Net Assets		
Beginning of period	<u>5,536,113,566</u>	<u>2,272,038,762</u>
End of period	<u><u>\$4,178,899,375</u></u>	<u><u>\$5,536,113,566</u></u>
Number of Shares of the Fund:		
Issued from sale of shares	115,498,465	43,255,062
Issued in connection with the acquisition of assets from CGM Capital Development Fund (Note 7)	8,723,604	—
Issued in connection with reinvestment of:		
Dividends from net investment income	960,799	70,845
Distributions from net short-term realized capital gains on investments	—	11,588,559
Distributions from net long-term realized capital gains on investments	—	2,392,312
	<u>125,182,868</u>	<u>57,306,778</u>
Redeemed	<u>(75,626,212)</u>	<u>(17,341,601)</u>
Net change	<u><u>49,556,656</u></u>	<u><u>39,965,177</u></u>

See accompanying notes to financial statements.

CGM FOCUS FUND

FINANCIAL HIGHLIGHTS

	For the Year Ended December 31,				
	2008	2007	2006	2005	2004
For a share of the Fund outstanding throughout each period:					
Net asset value at the beginning of period	\$52.49	\$34.68	\$33.40	\$29.51	\$29.93
Net investment income (a)(b)	0.20	0.06	0.82	0.52	0.04
Net realized and unrealized gains (losses) on investments and foreign currency transactions	(25.51)	27.71	4.19	6.93	3.65
Total from investment operations	(25.31)	27.77	5.01	7.45	3.69
Dividends from net investment income	(0.22)	(0.05)	(0.81)	(0.44)	(0.04)
Distribution from net short-term realized gains	—	(8.21)	—	(1.80)	—
Distribution from net long-term realized gains	—	(1.70)	(2.92)	(1.32)	(4.07)
Total distributions	(0.22)	(9.96)	(3.73)	(3.56)	(4.11)
Net increase (decrease) in net asset value	(25.53)	17.81	1.28	3.89	(0.42)
Net asset value at end of period	\$26.96	\$52.49	\$34.68	\$33.40	\$29.51
Total return (%)	(48.2)	80.0	15.0(c)	25.2	12.4
Ratios:					
Operating expenses to average net assets (%)	0.97	0.99	1.02	1.07	1.12
Dividends and interest on short positions to average net assets (%)	0.39	0.28	0.18	0.15	0.09
Total expenses to average net assets (%)	1.36	1.27	1.20	1.22	1.21
Net investment income to average net assets (%)	0.44	0.14	2.23	1.55	0.14
Portfolio turnover (%)	504(d)	384	333	282	327
Net assets at end of period (in thousands) (\$)	4,178,899	5,536,114	2,272,039	1,641,143	918,837

(a) Per share net investment income (loss) has been calculated using the average shares outstanding during the period.

(b) Net investment income (loss) per share excluding all related short sale income and expenses for the period ended December 31, 2004 was \$0.06, for the period ended December 31, 2005 was \$0.23, for the period ended December 31, 2006 was \$0.36, for the period ended December 31, 2007 was (\$0.02) and for the period ended December 31, 2008 was \$0.32.

(c) In 2006, the Fund's total return includes a voluntary reimbursement by the adviser for a realized investment loss. Excluding this item, the total return would have been 0.01% less.

(d) Portfolio turnover excludes the impact of assets resulting from a merger with another fund. (See Note 7 of Notes to the Financial Statements.)

See accompanying notes to financial statements.

CGM FOCUS FUND

NOTES TO FINANCIAL STATEMENTS — December 31, 2008

1. The Fund is a non-diversified series of CGM Trust which is organized as a Massachusetts business trust under the laws of Massachusetts pursuant to an Agreement and Declaration of Trust. The Trust is registered under the Investment Company Act of 1940 as an open-end management investment company. The Trust has two other funds whose financial statements are not presented herein. The Fund commenced operations on September 3, 1997. The Fund's investment objective is long-term growth of capital. The Fund intends to pursue its objective by investing in a smaller number of companies, and/or in a more limited number of sectors than diversified mutual funds. In addition, should the investment outlook of the Fund's investment manager so warrant, the Fund may engage in a variety of investment techniques including short sales designed to capitalize on declines in the market price of specific equity securities of one or more companies or declines in market indexes.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

- A. Security valuation** — Equity securities are valued on the basis of valuations furnished by a pricing service, authorized by the Board of Trustees. Equity securities listed or regularly traded on a securities exchange or in the over-the-counter (OTC) market are valued at the last quoted sale price or, for certain markets, the official closing price at the time the valuations are made. A security that is listed or traded on more than one exchange is valued at the quotation on the exchange determined to be the primary market for such security. For securities with no sale reported, the last reported bid price is used for long positions and the last reported ask price for short positions. Short-term investments having a maturity of sixty days or less are stated at amortized cost, which approximates value. Other assets and securities which are not readily marketable will be valued in good faith at fair value using methods determined by the Board of Trustees.
- B. Security transactions and related investment income** — Security transactions are accounted for on the trade date (date the order to buy or sell is executed) and dividend income is recorded on the ex-dividend date net of applicable foreign taxes. Interest income is recorded on the accrual basis and includes amortization of premium and discount. Net gain or loss on securities sold is determined on the identified cost basis.
- C. Federal income taxes** — It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies, and to distribute to its shareholders all of its taxable income and net realized capital gains, within the prescribed time period. Accordingly, no provision for federal income tax has been made. The Fund adopted the provisions of the Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 ("FIN 48"), on January 1, 2007. FIN 48 prescribes a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The implementation of FIN 48, which included a review of the Fund's tax return of each of the three open tax years, did not result in any unrecognized tax benefits in the accompanying financial statements. Management's conclusion regarding FIN 48 may be subject to review and adjustment at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations and interpretations thereof.

CGM FOCUS FUND

NOTES TO FINANCIAL STATEMENTS (continued)

At December 31, 2008, the Fund had available for tax purposes, capital loss carryovers of \$2,023,250,733 expiring December 31, 2016.

As of December 31, 2008, the components of distributable earnings on a tax basis were as follows:

<u>Undistributed Ordinary Income</u>	<u>Undistributed Long-term Capital Gains</u>	<u>Net Unrealized Appreciation/(Depreciation)</u>
\$—	\$—	\$(1,101,876,010)

The identified cost of investments in securities, held long, owned by the Fund for federal income tax purposes, and their respective gross unrealized appreciation and depreciation at December 31, 2008 was as follows:

<u>Identified Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Depreciation</u>
\$5,246,507,075	\$98,970,442	\$(1,200,846,452)	\$(1,101,876,010)

- D. Dividends and distributions to shareholders** — Dividends and distributions are recorded by the Fund on the ex-dividend date. The classification of income and capital gains distributions is determined in accordance with income tax regulations. Distributions from net investment income and short-term capital gains are treated as ordinary income for income tax purposes. Permanent book and tax differences relating to shareholder distributions may result in reclassifications to paid-in capital or accumulated realized gain/loss. These differences are primarily related to dividends on short positions which were held less than forty-five days and foreign currency gains/losses. The Fund also utilized earnings and profits distributed to shareholders on redemption of shares as a part of the dividend deduction for income tax purposes. Undistributed net investment income or accumulated net investment loss may include temporary book and tax differences such as tax deferral of losses on wash sales, which will reverse in a subsequent period. Any taxable income or gain remaining at fiscal year end is distributed in the following year.

The tax character of distributions paid during the period ended December 31, 2008 and 2007, were as follows:

<u>Year</u>	<u>Ordinary Income</u>	<u>Long-term Capital Gains</u>	<u>Total</u>
2008	\$ 33,932,273	\$ —	\$ 33,932,273
2007	\$732,383,352	\$150,234,755	\$882,618,107

- E. Short Sales** — The Fund may sell securities short. A short sale is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. When the Fund makes a short sale, it must borrow the security sold short to make delivery to the buyer. The Fund then is obligated to replace the security borrowed by purchasing the security at the market price at the time of replacement. The Fund is liable for any dividends or interest paid on securities sold short. While the short sale is outstanding, the Fund is required to collateralize its obligations, which has the practical effect of limiting the extent to which the Fund may engage in short sales. Under certain market conditions, short sales can increase the volatility of the Fund and may lower the Fund's return or result in losses, which potentially may be unlimited.
- F. Indemnities** — In the normal course of business, the Fund may enter into contracts that provide indemnities to third parties for various potential losses and claims. The Fund's maximum exposure under these arrangements is unknown as this would depend on future claims that may be made against the Fund. The risk of material loss from such claims is considered remote.

NOTES TO FINANCIAL STATEMENTS (continued)

G. Foreign currency translation — All assets and liabilities initially expressed in terms of foreign currencies are translated into U.S. dollars. Transactions affecting statement of operations accounts and net realized gain/(loss) on investments are translated at the rates prevailing at the dates of the transactions. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. Reported net realized foreign exchange gains or losses arise from sales of foreign currency, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains or losses arise from changes in the value of assets and liabilities other than investments in securities at the end of the period, resulting from changes in the exchange rate.

2. Risks and uncertainties

- A. Non-diversification risk** — The Fund is non-diversified, meaning it may invest a significant portion of its investments within a single industry or sector of the economy or in fewer individual holdings than a diversified fund. Therefore, the Fund may be subject to greater price volatility and may be more adversely affected by the performance of particular industries, sectors, or individual holdings than would a diversified fund. In addition, under certain circumstances the Fund may invest up to 70% of its assets in the crude petroleum and natural gas industry and the petroleum refining industry. Funds with a concentration are particularly susceptible to the impact of market, economic, regulatory and other factors affecting the specific concentration.
- B. Risks associated with foreign investments** — The Fund may invest in securities issued by institutions, corporations and governments established by or located in foreign countries, which may be developed or undeveloped countries. Investing in foreign securities may involve significant risks. For example, there is generally less publicly available information about foreign companies, particularly those not subject to the disclosure and reporting requirements of the U.S. securities laws. Foreign issuers are generally not bound by uniform accounting, auditing, and financial reporting requirements and standards of practice comparable to those applicable to domestic issuers. Investments in foreign securities also involve the risk of possible adverse changes in investment or exchange control regulations, expropriation or confiscatory taxation, limitation on the removal of the Fund or other assets of the Fund, political or financial instability or diplomatic and other developments which could affect such investments. Foreign stock markets, while growing in volume and sophistication, are generally not as developed as those in the United States, and securities of some foreign issuers (particularly those located in developing countries) may be less liquid and more volatile than securities of comparable U.S. companies. In general, there is less overall governmental supervision and regulation of foreign securities markets, broker-dealers and issuers than in the United States. Additionally, because some foreign securities the Fund may acquire are purchased with and payable in foreign currencies, the value of these assets as measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations.

The Fund's Prospectus and Statement of Additional Information contain additional information on other risks and uncertainties relating to the Fund's investments.

CGM FOCUS FUND

NOTES TO FINANCIAL STATEMENTS (continued)

- 3. Purchases and sales of securities** — For the period ended December 31, 2008, purchases and sales of securities other than United States government obligations and short-term investments aggregated \$37,343,261,566 and \$33,486,830,412, respectively, which excludes securities resulting from a merger with another fund. (See Note 7.) There were no purchases or sales of long-term United States government obligations for the period ended December 31, 2008.
- 4. A. Management fees** — During the period ended December 31, 2008, the Fund incurred management fees of \$61,082,103, paid or payable to the Fund's investment adviser, Capital Growth Management Limited Partnership ("CGM"), certain officers and employees of which are also officers and trustees of the Fund. The management agreement provides for a fee at the annual rate of 1.00% on the first \$500 million of the Fund's average daily net assets, 0.95% of the next \$500 million and 0.90% on amounts in excess of \$1 billion.
- B. Other expenses** — CGM performs certain administrative, accounting, compliance and other services for the Fund. The expenses of those services, which are paid to CGM by the Fund, include the following: (i) expenses for personnel performing bookkeeping, accounting and financial reporting functions and clerical functions relating to the Fund; (ii) expenses for services required in connection with the preparation of registration statements and prospectuses, shareholder reports and notices, proxy questionnaires for SEC compliance; (iii) registration, filing and other fees in connection with requirements of regulatory authorities; and (iv) compliance in connection to the Investment Company Act of 1940 and the Sarbanes Oxley Act of 2002. The accounting, administration and compliance expense of \$651,031, for the period ended December 31, 2008, is shown separately in the financial statements. These expenses include the reimbursement of a portion of the compensation expenses incurred by CGM for its employees who provide these administrative, accounting, compliance, and other services to the Fund, including \$462,156 of the salaries of CGM employees who are officers of the Fund.
- C. Trustees fees and expenses** — The Fund does not pay any compensation directly to any trustees who are officers or employees of CGM, or any affiliate of CGM (other than registered investment companies). For the period ended December 31, 2008, each disinterested trustee was compensated by the Trust with an annual fee of \$70,000 plus travel expenses for each meeting attended. The disinterested trustees are responsible for the audit committee functions of the Trust's Board and have designated a chairman to oversee those functions who receives an additional \$30,000 annually. Of these amounts, the Fund is responsible for \$18,000 per trustee annually, plus an annual variable fee calculated based on the proportion of the Fund's average net assets relative to the aggregate average net assets of the Trust.
- 5. Line of credit** — The Fund has a \$40,000,000 committed, secured line of credit with State Street Bank and Trust Company. Borrowings under the line will be charged interest at 0.75% over the current Overnight Federal Funds Rate. The Fund incurred a commitment fee of 0.10% per annum through October 20, 2008 and then incurs a commitment fee at 0.11% per annum on the unused portion of the line of credit, payable quarterly, through October 19, 2009. There were no borrowings under the line of credit during the period ended December 31, 2008.

CGM FOCUS FUND

NOTES TO FINANCIAL STATEMENTS (continued)

6. FASB 157 — In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, (FAS 157) “Fair Value Measurements”, effective for fiscal years beginning after November 15, 2007. The Fund adopted the provisions of FAS 157 on January 1, 2008. FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure about fair value measurements.

In accordance with FAS 157, the Fund may use valuation techniques consistent with the market, income, and cost approach to measure fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts (cash flows, earnings) to a single present amount. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset. To increase consistency and comparability in fair value measurements and related disclosure, the Fund utilizes a fair value hierarchy which prioritizes the various inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 — Prices determined using: quoted prices in active markets for identical securities
- Level 2 — Prices determined using: other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.)
- Level 3 — Prices determined using: significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund’s management’s own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available in the circumstances.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following is a summary of the inputs used to value CGM Focus Fund’s investments and securities sold short as of December 31, 2008:

Valuation Inputs	Assets — Investments in Securities	Liabilities — Securities Sold Short	Other Financial Instruments
Level 1 – Quoted Prices	\$4,136,836,065	none	N/A
Level 2 – Other Significant Observable Inputs ..	7,795,000	none	N/A
Level 3 – Significant Unobservable Inputs	none	none	N/A
Total	<u>\$4,144,631,065</u>	<u>none</u>	<u>N/A</u>

When current market prices or quotations are not readily available or do not accurately reflect fair value, valuations may be determined in accordance with procedures adopted by the Board of Trustees. For example, when developments occur between the close of a market and the close of the NYSE that may materially affect the value of some or all the securities, or when trading in a security is halted, these procedures may be used. The frequency with which these procedures are used is unpredictable. These valuation procedures may result in a change to a particular security’s assigned level within the fair value hierarchy described above. The value of securities used for NAV calculation under these procedures may differ from published prices for the same securities.

CGM FOCUS FUND

NOTES TO FINANCIAL STATEMENTS (continued)

7. Acquisition of Fund — On June 27, 2008, CGM Focus Fund acquired all the net assets of CGM Capital Development Fund pursuant to a Plan of Reorganization approved by CGM Capital Development Fund shareholders on June 20, 2008. The acquisition was accomplished by a tax-free exchange of 8,723,604 shares of CGM Focus Fund (valued at \$60.95 per share) for the 20,485,043 shares of CGM Capital Development Fund outstanding on June 27, 2008 (an exchange ratio of 0.42585234). CGM Capital Development Fund's net assets at that date (\$531,703,625), including \$32,747,755 of unrealized appreciation, were combined with those of CGM Focus Fund. The aggregate net assets of CGM Focus Fund immediately before the acquisition were \$9,656,099,353. The combined net assets of CGM Focus Fund immediately following the acquisition were \$10,187,802,978.

CGM FOCUS FUND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees of CGM Trust and Shareholders of CGM Focus Fund:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of CGM Focus Fund (the “Fund,” a series of CGM Trust) at December 31, 2008, the results of its operations, the changes in its net assets, and the financial highlights for the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2008 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
February 17, 2009

ADDITIONAL INFORMATION

(unaudited)

Availability of proxy voting information:

Proxy voting policies and information regarding how the Fund voted proxies relating to portfolio securities during the twelve month period ended June 30, 2008 are available without charge, upon request by calling 1-800-345-3048. The policies also appear in the Fund's Statement of Additional Information, which can be found on the SEC's website, <http://www.sec.gov>. The voting records can also be found on the SEC's website on the N-PX filing.

Portfolio Holdings:

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

CGM FOCUS FUND

FUND EXPENSES

As a shareholder of CGM Focus Fund, you incur two types of costs: (1) transaction costs, which could include, among other charges, wire fees and custodial maintenance fees for certain types of accounts and (2) ongoing costs, including management fees and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period July 1, 2008 to December 31, 2008.

Actual return and expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical example for comparison purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs such as any wire fees or custodial maintenance fees that may be payable. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

	<i>Beginning Account Value 7/01/08</i>	<i>Ending Account Value 12/31/08</i>	<i>Expenses Paid During Period* 7/01/08 – 12/31/08</i>
Actual	\$1,000.00	\$ 442.30	\$5.55
Hypothetical (5% return before expenses)	\$1,000.00	\$1,017.44	\$7.76

** Expenses are equal to the Fund's annualized expense ratio of 1.53%, multiplied by the average account value over the multiplied by 184/366 (to reflect the one-half year period).*

TAX INFORMATION (unaudited) FOR THE TAX YEAR ENDED 12/31/2008

We are providing this information as required by the Internal Revenue Code. The amounts shown may differ from those elsewhere in this report because of differences between tax and financial reporting requirements.

For the year ended December 31, 2008, the Fund designated \$0 as long-term capital dividends.

CGM FOCUS FUND

TRUSTEES AND OFFICERS

The Fund is supervised by the board of trustees (the “Board”) of the Trust. The Board is responsible for the general oversight of the Fund, including general supervision and review of the Fund’s investment activities. The Board, in turn, elects the officers who are responsible for administering the Fund’s day-to-day operations.

An asterisk in the table below identifies those trustees and officers who are “interested persons” of the Trust as defined in the Investment Company Act of 1940. Each trustee and officer of the Trust noted as an interested person is interested by virtue of that individual’s position with CGM, the Fund’s investment adviser, as described in the table below. Each trustee serves during the continued lifetime of the Trust or until he earlier dies, resigns or is removed, or if sooner, until the election and qualification of his successor. Each officer serves until his or her successor is elected or qualified or until the officer sooner dies, resigns, or is removed or becomes disqualified.

The trustees and officers of the Trust, their ages, their principal occupations during the past five years, the number of CGM Funds they oversee, and other directorships they hold are set forth below. Unless otherwise noted below, the address of each interested trustee and officer is One International Place, Boston, Massachusetts 02110. Correspondence intended for the trustees who are not “interested persons” of the Trust may be sent % Capital Growth Management, One International Place, Boston, Massachusetts 02110. The Statement of Additional Information for the Fund includes additional information about Fund trustees and is available, without charge, upon request by calling the CGM Marketing Department, toll free, at 800-345-4048.

<u>Name, Address and Age</u>	<u>Position Held and Length of Time Served</u>	<u>Principal Occupation During Past 5 Years and Other Directorships Held</u>	<u>Number of Funds in the CGM Funds Complex Overseen</u>
Interested Trustees			
G. Kenneth Heebner* age 68	Trustee since 1993	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	3
Robert L. Kemp* age 76	Trustee since 1990	Co-founder and Employee, CGM; Non-voting Owner, Kenbob, Inc. (general partner of CGM)	3
Disinterested Trustees			
Peter O. Brown age 68	Trustee since 1993	Counsel (formerly, Partner), Harter, Secrest & Emery LLP (law firm); formerly Executive Vice President and Chief Operating Officer, The Glenmeade Trust Company (from 1990 to 1993); formerly Senior Vice President, J.P. Morgan Chase Bank (from 1981-1990); Trustee, TT International U.S.A. Master and Feeder Trusts (four mutual funds) from 2000-2005	3

CGM FOCUS FUND

<u>Name, Address and Age</u>	<u>Position Held and Length of Time Served</u>	<u>Principal Occupation During Past 5 Years and Other Directorships Held</u>	<u>Number of Funds in the CGM Funds Complex Overseen</u>
Mark W. Holland age 59	Trustee since 2004	President, Wellesley Financial Advisors, LLC; (since 2003); formerly Vice President and Chief Operating Officer, Fixed Income Management, Loomis, Sayles & Company, L.P.; formerly Director, Loomis, Sayles & Company, L.P. (from 1999 to 2002)	3
James Van Dyke Quereau, Jr. age 60	Trustee since 1993	Managing Partner and Director, Stratton Management Company (investment management); Director and Vice President, Semper Trust Co.	3
J. Baur Whittlesey age 62	Trustee since 1990	Member, Ledgewood, P.C. (law firm)	3
Officers			
G. Kenneth Heebner* age 68	Vice President since 1990	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	3
Robert L. Kemp* age 76	President since 1990	Co-founder and Employee, CGM; Non-voting Owner, Kenbob, Inc. (general partner of CGM)	3
David C. Fietze* age 39 address: 38 Newbury Street Boston, Massachusetts 02116	Chief Compliance Officer since 2004	Employee – Legal counsel, CGM; formerly counsel, Bartlett Hackett Feinberg, P.C.	3
Kathleen S. Haughton* age 48 address: 38 Newbury Street Boston, Massachusetts 02116	Vice President since 1992 and Anti-Money Laundering Compliance Officer since 2002	Employee – Investor Services Division, CGM	3
Jem A. Hudgins* age 45	Treasurer since 2004	Employee – CGM	3
Leslie A. Lake* age 63	Vice President and Secretary since 1992	Employee – Office Administrator, CGM	3
Martha I. Maguire* age 53	Vice President since 1994	Employee – Funds Marketing, CGM	3
Mary L. Stone* age 64	Assistant Vice President since 1990	Employee – Portfolio Transactions, CGM	3